

# **Washington State Auditor's Office**

## **Audit Report**

### **Audit Services**

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Report No. 58003

**PORT OF SOUTH WHIDBEY**

Island County, Washington

January 1, 1995 Through December 31, 1995

Issue Date: January 24, 1997

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**PORT OF SOUTH WHIDBEY**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Laws And Regulations  
At The Financial Statement Level (Plus Additional State Compliance  
Requirements Per RCW 43.09.260)**

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Board of Commissioners  
Port of South Whidbey  
Freeland, Washington

We have audited the financial statements, as listed in the table of contents, of the Port of South Whidbey, Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

Compliance with laws, regulations, contracts, and grants applicable to the Port of South Whidbey is the responsibility of the port's management. As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the port's compliance with certain provisions of laws, regulations, contracts, and grants.

We also performed additional tests of compliance with state laws and regulations as required by *Revised Code of Washington* (RCW) 43.09.260. This statute requires the State Auditor to inquire as to whether the port complied with the laws and the *Constitution of the State of Washington*, its own ordinances and orders, and the requirements of the State Auditor's Office. Our responsibility is to examine, on a test basis, evidence about the port's compliance with those requirements and to make a reasonable effort to identify any instances of misfeasance, malfeasance, or nonfeasance in office on the part of any public officer or employee and to report any such instance to the management of the port and to the Attorney General. However, the objective of our audit of the financial statements was not to provide an opinion on overall compliance with these provisions. Accordingly, we do not express such an opinion.

Material instances of noncompliance are (1) failures to follow requirements or violations of prohibitions contained in statutes, regulations, contracts, or grants that cause us to conclude that the aggregation of the misstatements resulting from those failures or violations is material to the financial statements or (2) considerable failure to comply with the laws and the *Constitution of the State of Washington*, the port's ordinances and orders, and the requirements of the State Auditor's Office. The results of our tests of compliance disclosed an instance of noncompliance that may materially affect the financial statements. The material instance of noncompliance noted during our audit is disclosed in the accompanying Schedule of Findings.

We considered the instance of noncompliance in forming our opinion on whether the port's financial statements are fairly presented, in all material respects, in conformity with the prescribed basis of accounting and the statutory provisions described in paragraph four of this report.

Except for the material instance of noncompliance disclosed in the Schedule of Findings accompanying this report, the results of our tests of compliance indicate that, with respect to the items tested, the port complied, in all material respects, with the provisions referred to in the third and fourth paragraphs of this report, and with respect to items not tested, nothing came to our attention that caused us to believe that the port had not complied, in all material respects, with those provisions.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 10, 1996

**PORT OF SOUTH WHIDBEY**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure**  
**At The Financial Statement Level**

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Board of Commissioners  
Port of South Whidbey  
Freeland, Washington

We have audited the financial statements of the Port of South Whidbey, Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

The management of the port is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that assets are safeguarded against loss from unauthorized use or disposition, and that transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting. Because of inherent limitations in any internal control structure, errors or irregularities may nevertheless occur and not be detected. Also, projection of any evaluation of the structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

In planning and performing our audit of the financial statements of the port, we obtained an understanding of the internal control structure. With respect to the internal control structure, we obtained an understanding of the design of relevant policies and procedures and whether they have been placed in operation, and we assessed control risk in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control structure. Accordingly, we do not express such an opinion.

We noted certain matters involving the internal control structure and its operation that we consider to be reportable conditions under standards established by the American Institute of Certified Public Accountants. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control structure that, in our judgment, could adversely affect the entity's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

The matters involving the internal control structure and its operation that we consider to be reportable conditions are included in the Schedule of Findings accompanying this report.

A material weakness is a reportable condition in which the design or operation of one or more of the specific internal control structure elements does not reduce to a relatively low level the risk that errors or irregularities in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Our consideration of the internal control structure would not necessarily disclose all matters in the internal control structure that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses as defined above. However, we noted a reportable condition that we believe to be a material weakness, which is identified in the Schedule of Findings accompanying this report.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 10, 1996

PORT OF SOUTH WHIDBEY  
Island County, Washington  
January 1, 1995 Through December 31, 1995

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Schedule Of Findings

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1. The Port Should Improve Controls Over Cash Receipts

During our audit of the Port of South Whidbey's cash receipts we found the following weaknesses with internal control.

- a. Port officials do not issue prenumbered receipts for money received from local sources. Also, one person is responsible for receiving money and preparing the bank deposit.

We recommend port officials use prenumbered receipts, printed with the port's name to record all port revenues. Each receipt should indicate mode of payment (i.e., cash or check).

We also recommend a port official, independent of the person receiving the money, review the bank deposit to ensure it agrees with receipts in total, and by mode of payment. This will help ensure all port moneys are deposited with the bank intact.

- b. One port official collects money from parking lot customers, deposits cash in the bank, and submits checks to the port clerk without any oversight by another port official. Checks are deposited with the port clerk monthly.

We recommended port officials improve controls for collecting parking lot revenues in our prior audit Report No. 57338. Port officials chose not to change the procedures for collecting parking fees because they planned to lease the operation in the future. Controls remained unchanged until June 1996, when the port leased the parking lot to a private entity.

State law requires the port properly account for financial activity in RCW 43.09.200 which states in part:

The accounts shall show the receipt, use, and disposition of all public property, and the income, if any, derived therefrom; all sources of public income, and the amounts due and received from each source; all receipts, vouchers, and other documents kept, or required to be kept, necessary to isolate and prove the validity of every transaction.

The conditions described above prevented us from giving assurance that revenue shown on the port's financial statements is complete.

We recommend that port officials take action to correct the remaining weaknesses and strengthen internal controls.

Auditee's Response

*We received the following response in a letter dated December 12, 1996, from Charles W. Edwards, port accountant.*

*The following are the Port's responses to the recommendations as contained in your audit report:*

- a. The Port agrees to use pre-numbered cash receipts, pre-printed with the Port of South Whidbey name to record all port revenues. A Port official who is not the person receiving the money, will review the bank deposit ensuring it agrees with receipts in total and by mode of payment.*
- b. The parking lot was leased out in July of 1996 and no longer receives money from parking lot customers.*

Auditor's Concluding Remarks

We appreciate the port's prompt response to our finding and look forward to following up on management's progress during our next audit.

**PORT OF SOUTH WHIDBEY**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Financial Statements And Additional Information**

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Board of Commissioners  
Port of South Whidbey  
Freeland, Washington

We have audited the accompanying statements of Fund Resources and Uses Arising from Cash Transactions of the various funds of the Port of South Whidbey, Island County, Washington, for the fiscal year ended December 31, 1995. These financial statements are the responsibility of the port's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatements. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1 to the financial statements, the port prepares its financial statements on the cash basis of accounting that demonstrates compliance with Washington State statutes and the *Budgeting, Accounting and Reporting System (BARS)* manual prescribed by the State Auditor, which is a comprehensive basis of accounting other than generally accepted accounting principles.

A substantial portion of the revenues of the port consists of locally collected charges and fees. It was not practicable to satisfy ourselves with respect to these revenues beyond the amounts recorded by the county as received.

In our opinion, except for the effect, if any, of the matters discussed in the preceding paragraph, and except that omitted disclosures might influence a user's conclusions about the port's transactions, the accompanying financial statements present fairly, in all material respects, the recognized revenues and expenditures of the funds of the Port of South Whidbey for the fiscal year ended December 31, 1995, on the cash basis of accounting described in Note 1.

Our audit was made for the purpose of forming an opinion on the financial statements taken as a whole. The accompanying Schedule of Long-Term Debt and Schedule of State Financial Assistance are presented for purposes of additional analysis and are not a required part of the financial statements. Such information has been subjected to the auditing procedures applied in the audit of the financial

statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

In accordance with *Government Auditing Standards*, we have also issued a report dated October 10, 1996, on our consideration of the port's internal control structure and a report dated October 10, 1996, on its compliance with laws and regulations.

Brian Sonntag  
State Auditor

October 10, 1996

**PORT OF SOUTH WHIDBEY**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Supplementary Information**  
**Schedule Of Federal Financial Assistance**

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Board of Commissioners  
Port of South Whidbey  
Freeland, Washington

We have audited the financial statements of the Port of South Whidbey, Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 10, 1996. These financial statements are the responsibility of the port's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with generally accepted auditing standards and *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

Our audit was made for the purpose of forming an opinion on the financial statements of the Port of South Whidbey taken as a whole. The accompanying Schedule of Federal Financial Assistance is presented for purposes of additional analysis and is not a required part of the financial statements. The information in the schedule has been subjected to the auditing procedures applied in the audit of the financial statements and, in our opinion, is fairly presented in all material respects in relation to the financial statements taken as a whole.

Brian Sonntag  
State Auditor

October 10, 1996

**PORT OF SOUTH WHIDBEY**  
**Schedule Of Federal Financial Assistance**  
**Federal Assistance Received Indirectly Through A State Agency**  
**Or Other Local Government**  
**For The Fiscal Year Ended December 31, 1995**

<b>Grantor/ Pass-Through Grantor Program Title</b>	<b>Federal CFDA Number</b>	<b>Other Identification Number</b>	<b>Current Year Expenses</b>
<b>WSDOT (Clinton Pier Project)</b>	<b>20.205</b>	<b>STPE-EN93(003)</b>	<b>\$29,238</b>
<b>Total Federal Asst.</b>			<b>\$29,238</b>

**PORT OF SOUTH WHIDBEY**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With The General Requirements  
Applicable To Federal Financial Assistance Programs**

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Board of Commissioners  
Port of South Whidbey  
Freeland, Washington

We have audited the financial statements of the Port of South Whidbey, Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 10, 1996.

We have applied procedures to test the port's compliance with the following requirements applicable to its federal financial assistance program, which is identified in the Schedule of Federal Financial Assistance, for the fiscal year ended December 31, 1995:

- Political activity
- Davis-Bacon Act
- Civil rights
- Federal financial reports
- Allowable costs/cost principles
- Administrative requirements, including subrecipient monitoring

The following requirements were determined to be not applicable to its federal financial assistance program:

- Cash management
- Relocation assistance and real property acquisition
- Drug-Free Workplace Act

Our procedures were limited to the applicable procedures described in the Office of Management and Budget's (OMB) *Compliance Supplement for Single Audits of State and Local Governments* or alternative procedures. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the port's compliance with the requirements listed in the preceding paragraph. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the second paragraph of this report. With respect to items not tested, nothing came to our attention that caused us to believe that the port had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 16, 1996

**PORT OF SOUTH WHIDBEY**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Compliance With Specific Requirements**  
**Applicable To Nonmajor Federal Financial Assistance Program Transactions**

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Board of Commissioners  
Port of South Whidbey  
Freeland, Washington

We have audited the financial statements of the Port of South Whidbey, Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 10, 1996.

In connection with our audit of the financial statements of the port and with our consideration of the port's control structure used to administer its federal financial assistance programs, as required by OMB Circular A-128, *Audits of State and Local Governments*, we selected certain transactions applicable to its nonmajor federal financial assistance program for the fiscal year ended December 31, 1995. As required by OMB Circular A-128, we have performed auditing procedures to test compliance with the requirements governing allowability of the program expenditures that are applicable to those transactions. Our procedures were substantially less in scope than an audit, the objective of which is the expression of an opinion on the port's compliance with these requirements. Accordingly, we do not express such an opinion.

With respect to the items tested, the results of those procedures disclosed no material instances of noncompliance with the requirements listed in the preceding paragraph. With respect to the items not tested, nothing came to our attention that caused us to believe that the Port of South Whidbey had not complied, in all material respects, with those requirements.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 16, 1996

**PORT OF SOUTH WHIDBEY**  
**Island County, Washington**  
**January 1, 1995 Through December 31, 1995**

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**Independent Auditor's Report On Internal Control Structure Used In  
Administering Federal Financial Assistance Programs**

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Board of Commissioners  
Port of South Whidbey  
Freeland, Washington

We have audited the financial statements of the Port of South Whidbey, Island County, Washington, as of and for the fiscal year ended December 31, 1995, and have issued our report thereon dated October 10, 1996.

We conducted our audit in accordance with generally accepted auditing standards, *Government Auditing Standards*, issued by the Comptroller General of the United States, and the provisions of OMB Circular A-128, *Audits of State and Local Governments*. Those standards and OMB Circular A-128 require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement.

In planning and performing our audit, we considered the port's internal control structure in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and to report on the internal control structure in accordance with OMB Circular A-128. This report addresses our consideration of internal control structure policies and procedures relevant to compliance with requirements applicable to federal financial assistance programs. We have addressed internal control structure policies and procedures relevant to our audit of the financial statements in a separate report dated October 10, 1996.

The management of the port is responsible for establishing and maintaining an internal control structure. In fulfilling this responsibility, estimates and judgments by management are required to assess the expected benefits and related costs of internal control structure policies and procedures. The objectives of an internal control structure are to provide management with reasonable, but not absolute, assurance that:

- Assets are safeguarded against loss from unauthorized use or disposition.
- Transactions are executed in accordance with management's authorization and recorded properly to permit the preparation of financial statements in accordance with the prescribed basis of accounting.
- Federal financial assistance programs are managed in compliance with applicable laws and regulations.

Because of inherent limitations in any internal control structure, errors, irregularities, or instances of noncompliance may nevertheless occur and not be detected. Also, projection of any evaluation of the

structure to future periods is subject to the risk that procedures may become inadequate because of changes in conditions or that the effectiveness of the design and operation of policies and procedures may deteriorate.

For the purpose of this report, we have classified the significant internal control structure policies and procedures used in administering federal financial assistance programs in the following categories:

- **Accounting Controls**
  - Cash receipts
  - Cash disbursements
  - Purchasing and receiving
  - General ledger
- **General Requirements**
  - Political activity
  - Davis-Bacon Act
  - Civil rights
  - Federal financial reports
  - Allowable costs/cost principles
  - Administrative requirements, including subrecipient monitoring
- **Specific Requirements**
  - Types of services
  - Matching, level of effort, earmarking
  - Reporting
  - Special requirements
- **Claims For Advances And Reimbursements**
- **Amounts Claimed Or Used For Matching**

For all of the applicable internal control structure categories listed above, we obtained an understanding of the design of relevant policies and procedures and determined whether they have been placed in operation, and we assessed control risk.

The following internal control structure categories were determined to be insignificant to federal financial assistance programs:

- **Accounting Controls**
  - Receivables
  - Accounts payable
  - Payroll
  - Inventory control
  - Property, plant, and equipment
- **General Requirements**
  - Cash management
  - Relocation assistance and real property acquisition
  - Drug-Free Workplace Act
- **Specific Requirements**
  - Eligibility

During the fiscal year ended December 31, 1995, the port had no major federal financial assistance programs and expended 100 percent of its total federal financial assistance under the following nonmajor federal financial assistance program: Highway Planning and Construction (CFDA 20.205).

We performed tests of controls, as required by OMB Circular A-128, to evaluate the effectiveness of the design and operation of internal control structure policies and procedures that we considered relevant to preventing or detecting material noncompliance with specific requirements, general requirements, and requirements governing claims for advances and reimbursements, and amounts claimed or used for matching that are applicable to the aforementioned nonmajor program. Our procedures were less in scope than would be necessary to render an opinion on these internal control structures policies and procedures. Accordingly, we do not express such an opinion.

Our consideration of the internal control structure policies and procedures used in administering federal financial assistance would not necessarily disclose all matters in the internal control structure that might be material weaknesses under standards established by the American Institute of Certified Public Accountants. A material weakness is a reportable condition in which the design or operation of one or more of the internal control structure elements does not reduce to a relatively low level the risk that noncompliance with laws and regulations that would be material to a federal financial assistance program may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control structure and its operation that we consider to be material weaknesses, as defined above.

This report is intended for the information of management and the board of commissioners and to meet our statutory reporting obligations. This report is a matter of public record and its distribution is not limited. It also serves to disseminate information to the public as a reporting tool to help citizens assess government operations.

Brian Sonntag  
State Auditor

October 16, 1996

PORT OF SOUTH WHIDBEY  
Island County, Washington  
January 1, 1995 Through December 31, 1995

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Status Of Prior Findings

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The finding contained in the prior audit report was resolved as follows:

1. The Port Should Improve Controls Over Cash Receipts

Resolution: *This is unresolved.*